

Message Text

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SUBJECT: EDRC ANNUAL REVIEW OF DENMARK, JULY 1

REFS: (A) OECD DOCUMENT EDR(75)17

(B) COPENHAGEN 6527

(C) OECD PARIS 16841

1. SUMMARY. DANISH DELEGATION AT JULY 1 EDRC REVIEW ACCEPTED WITH MINOR RESERVATIONS SECRETARIAT'S ANALYSIS AND EMPHASIZED THAT ANY EXPANSIONARY MEASURES SHOULD BE TEMPORARY AND SELECTIVE, RATHER THAN GENERAL. DANES FEEL UNEMPLOYMENT AND ACTIVITY BOTTOMED OUT IN JUNE AND (IN LINE COMMENTS REFTEL B) RAISED SOME TECHNICAL QUESTIONS ABOUT SECRETARIAT'S COMMENTS ON UNEMPLOYMENT FIGURES AND BUDGET DEFICIT. END SUMMARY.

2. AT EDRC ANNUAL REVIEW JULY 1, DANISH DELEGATION ACCEPTED SECRETARIAT'S ANALYSIS (REFDOC A) WITH ONLY MINOR RESERVATIONS. STATED THAT UNEMPLOYMENT AND INVESTMENT BELIEVED TO HAVE BOTTOMED OUT IN JUNE, STOCKS ARE DECLINING RAPIDLY, AND EXPORT-LED RECOVERY
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IS ANTICIPATED FOR LATE 1975. SECRETARIAT QUESTIONED

FUTURE SUSTAINABILITY OF NON-INFLATIONARY RECOVERY IN CONDITIONS OF RESTORED EXPORT DEMAND AND RENEWED CONSUMER CONFIDENCE, AS SAVINGS RATE FALLS TO TRADITIONALLY LOWER LEVELS. DANES REPLIED, HOWEVER, THAT GOD CONFIDENT ADEQUATE CAPACITY AND INSTRUMENTS EXIST TO SUSTAIN AND MANAGE RE-EXPANSION.

3. POLICY STANCE: DANISH REP STATED PRINCIPAL CURRENT CONCERN IS TO ASSURE SOUND BASIS FOR RECOVERY. FEEL RELATIVELY OPTIMISTIC, SINCE THERE IS MUCH EXCESS CAPACITY, SAVINGS ARE UNUSUALLY HIGH, WAGE DEMANDS AND INFLATION ARE MODERATE BY OECD STANDARDS, AND BALANCE OF PAYMENTS NO LONGER PRESSING CONSIDERATION. ACCORDINGLY, THOUGH GOD IS PREPARED TO PURSUE MORE EXPANSIONARY DOMESTIC POLICIES IF EXPORT DEMAND DOES NOT RECOVER, IT CURRENTLY PREFERS TO "WAIT AND SEE." THE MOST RECENT DEMAND MANAGEMENT INITIATIVES OF JUNE (RELAXED DEPRECIATION REGULATIONS AND RESIDENTIAL REPAIR SUBSIDIES) VIEWED BY DANES AS SIGNIFICANT AND, FOR THE MOMENT, ADEQUATE. THOUGH NO DETAILED CONTINGENCY PLANS EXIST IF FURTHER STIMULUS NECESSARY, GOD AGREED WITH SECRETARIAT THAT WOULD NOT PURSUE GENERAL EXPANSIONARY PROGRAM, BUT RATHER TAKE "SELECTIVE" AND "TEMPORARY" ACTION.

4. PRICES AND WAGES: FOR 1975, DANES EXPECT ANNUAL UNEMPLOYMENT FIGURE WILL TURN OUT TO BE ABOUT 9 PERCENT OF INSURED WORKERS, WITH DECEMBER LOWER THAN ANNUAL AVERAGE, WAGE INCREASES TO TOTAL ROUGHLY 10 PERCENT, AND RATE PRICE INCREASES TO FALL TO 6 PERCENT. DANISH REP EXPLAINED THAT THEIR CURRENT UNEMPLOYMENT DATA IS HARD TO INTERPRET DUE TO DIFFICULTIES IN SEASONAL ADJUSTMENT, ETC.

5. IN RESPONSE TO QUESTIONING, DANES STATED THEY FELT INDEXATION HAD BEEN USED SUCCESSFULLY AS AN ANTI-INFLATIONARY INSTRUMENT BY FREQUENTLY READJUSTING THE BASE YEARS FROM WHICH WAGE ADJUSTMENTS ARE CALCULATED.

6. ON EFFECTS OF JOINING EC, DANES STATED EXPANSION OF LIMITED OFFICIAL USE

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DENMARK'S TRADE WITH EC HAS DERIVED PRINCIPALLY FROM GREATER FAMILIARITY WITH AREA'S NEW MARKETS RATHER THAN FROM TARIFF REDUCTIONS. DENMARK CONTINUES TO BELIEVE THAT MORE TRADE CREATION THAN DIVERSION INVOLVED, AND REMAINS CONFIDENT THAT OTHER NORDIC COUNTRIES WILL REMAIN STRONG TRADING PARTNERS. THE STRENGTH OF DANISH EXPORTS TO DATE IN FACE OF HIGHER WAGES AND APPRECIATION OF THE KRONER WAS ATTRIBUTED TO DIMINISHED PROFIT MARGINS.

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